

THE FUTURE OF ASSET MANAGEMENT IN CHINA 2021





PATRICK YU

*General Manager, SVP and Senior Partner
Asia Pacific Lead, Financial and
Professional Services Sector,
FleishmanHillard Hong Kong*

Executive Summary

For the third year in a row, FleishmanHillard looks into Chinese investors' thoughts on the asset management industry in China amidst the ongoing liberalization of the capital market. This third China-focused asset management report is timely as overseas asset managers launch operations directly in China's onshore retail fund market for the first time, against the backdrop of challenges that continue to be presented by the COVID-19 pandemic and geopolitical tensions.

China continues to be a major growth market for many overseas asset managers, with AUM now standing at RMB 23.03 trillion (approx. US\$3.5 trillion), having grown 34% year-on-year in 2020. Chinese investors continue to have appetite for overseas asset managers' products, with ongoing interest in QDLP and private fund market products. They are particularly interested in upcoming onshore retail fund products being launched by overseas asset managers. ESG, a growing focus area among global investors, is also now an important factor in China. Nearly all (95%) Chinese investors think that ESG product offerings are important for overseas asset managers operating in China.

When it comes to communications, while traditional banks and intermediaries continue to dominate, digital communications are an important channel for asset managers to reach out to their audiences in China. We have gone deeper this year with an analysis from ChatLabs, a global WeChat solutions provider, on how various asset managers' WeChat channels have fared and how they can more effectively communicate with investors.

The report shows that to excel in the asset management market in China, transparency in communications, demonstrating your ESG commitment and fully-fledged digital communications will be key.

A well-developed public affairs and strategic communications program will help asset managers to protect their reputation in this highly charged environment. We hope you find this report insightful and informative.

Section 1

INDUSTRY LANDSCAPE



ASIA

The Asia Pacific asset management industry continued to experience double-digit growth in assets under management (AUM) in 2020, despite the outbreak of COVID-19, with Japan and Australia capturing an 11% growth rate and reaching a combined AUM of US\$8.5 trillion, according to Boston Consulting Group. Developing Asia Pacific countries also grew at 11%, below the 10-year average growth rate, amassing US\$14 trillion in AUM.¹

The Asia Pacific region continues to present some of the most attractive opportunities for global asset managers amid continued fast-paced economic growth and increasing demand for retail and institutional investment services in the region. According to PwC, AUM in APAC is set to grow faster than any other regions globally, rising from US\$15.1 trillion in 2017 to US\$29.6 trillion in 2025. Retail funds, including exchange-traded funds (ETFs), are forecast to more than double their AUM during that same period to US\$11.9 trillion.² This will be partially driven by a rapidly aging population in parts of the region, but also by its growing affluence, creating opportunities for global asset managers to try their hand at searching for new investment opportunities.

The Asia Pacific also appears to be catching up with the rest of the world regarding environmental, social and governance (ESG) factors. Sustainable funds in Asia ex-Japan saw an estimated inflow of US\$8 billion in the first quarter of 2021, according to Morningstar. Excluding China, registered asset growth amounted to 28% from the fourth quarter of 2020, with the AUM of sustainable funds at the end of March reaching more than US\$35 billion.³ Demand for more sustainable investments will lead to an increase in such offerings in the region, with nearly two-thirds of asset managers telling a recent Cerulli Associates survey that they expect to launch ESG thematic funds in the next two to three years.⁴



1. BCG: Global Asset Management - The \$100 Trillion Machine (July 2021)
2. PwC: Asset and Wealth Management 2025: The Asian Awakening (January 2019)
3. Morningstar: China Equity Tops Asian Fund Flows (May 2021)
4. Cerulli Associates: Sustainable Products Take Root in Asia (July 2021)



CHINA

Despite the disruption caused by COVID-19, China's fund industry had a remarkable 2020, with assets surpassing the approximately US\$3 trillion (RMB 20 trillion) mark for the very first time.⁵ According to Cerulli Associates, AUM in China grew 34% in 2020, while net flows increased 21.8% year-on-year. Net revenues for the local fund market rose an impressive 37% year-on-year, highlighting the enormous opportunities for overseas fund houses.⁶ As of June 2021, the AUM of the country's public fund industry stood at approximately US\$3.5 trillion (RMB 23.03 trillion).⁷

FOREIGN ASSET MANAGERS ENTER CHINA'S RETAIL MARKET

Since China's decision to allow foreign participation in its US\$3.5 trillion fund market and the scrapping of foreign ownership limits in local mutual fund companies in late 2019, global asset managers have raced to see who would become the first to take advantage of the market opening.

In April 2021, one major foreign asset

manager became the first to receive final approval from the China Securities Regulatory Commission (CSRC) to commence its retail fund management business in the country. At the time of writing, the firm had submitted an application to launch its first official retail product, while other major players should follow soon after one received initial approval in August from the CSRC to establish operations in the country and another registered a 100%-owned legal entity that will enable it to launch its retail fund management operation – usually the sign of a fund manager close to obtaining the initial go-ahead from the regulator to make final preparations for a full launch.

Others are taking a different route, instead looking to buy up their current fund management joint ventures (JVs) as a way of getting a 100% legal entity in China.

5. KPMG: Hong Kong Asset Management Outlook – Key Trends for 2021 (February 2021)
6. Cerulli Associates: Sustainable China Is an Increasingly Important Market for Global Asset Managers (August 2021)
7. AMAC: Public Fund Industry Data (as of 16 August 2021)

QDLP EXPANDS

The Qualified Domestic Limited Partnership (QDLP) scheme, a pilot program that permits foreign asset managers to raise funds from domestic investors in China to invest in their offshore funds, continued to expand after China resumed granting licenses to foreign asset managers in early 2020. That year, Beijing, Shanghai and Shenzhen each received US\$10 billion (approx. RMB 64.7 billion) in QDLP quota, which they could then grant to individual fund companies. New regions to the scheme, such as Chongqing, Jiangsu, Hainan and Guangdong, each received US\$5 billion (approx. RMB 32.4 billion).

As part of a series of favorable policies announced earlier this year, the Shanghai government included some policy updates to expand the QDLP program, allowing foreign asset managers in the city to operate both onshore private funds and a cross-border QDLP business via one entity.

THE GROWING IMPORTANCE OF ESG

The CSRC's publication on 28 June of risk disclosure rules for listed companies is an important and welcome step for foreign asset managers looking to invest in the market while abiding by ESG mandates. The new CSRC rules now require companies to disclose in their annual reports procedures for preventing pollution of air, water and soil, plus methods for managing waste as well as reporting environmental incidents, especially any associated penalties. Although the

industry has commented that there needs to be more detailed guidance on such disclosures, the new regulations will likely facilitate new inflows into the Chinese market and attract more foreign managers to set up business in the country.

THE PROSPECTS OF A WEALTH MANAGEMENT CONNECT

In May 2020, Chinese regulators issued a circular that proposed a new Wealth Management Connect. This is a two-way scheme allowing residents of Hong Kong and Macau to invest in wealth management products distributed by mainland banks in the Greater Bay Area (GBA), and residents of mainland cities in the GBA to invest in wealth management products distributed by banks in Hong Kong and Macau.

At the time of writing, the regulators were considering the feedback from a consultation on the scheme but will likely offer a new channel for foreign fund managers that have Securities & Futures Commission-authorized Hong Kong domiciled funds to tap the vast potential wealth of the Chinese market. According to the Hurun Wealth Report 2019, there are 452,010 high-net-worth families across Guangdong, Hong Kong and Macau, each with more than RMB 6 million (approx. US\$930,000) in investable assets.⁸ Their aggregate estimated investable assets have reached at least RMB 2.7 trillion (approx. US\$417.2 billion), making the GBA the wealthiest megalopolis in the world.

8. Hurun: Hurun Wealth Report 2019 (accessed 12 August 2021)



Section 2

SURVEY

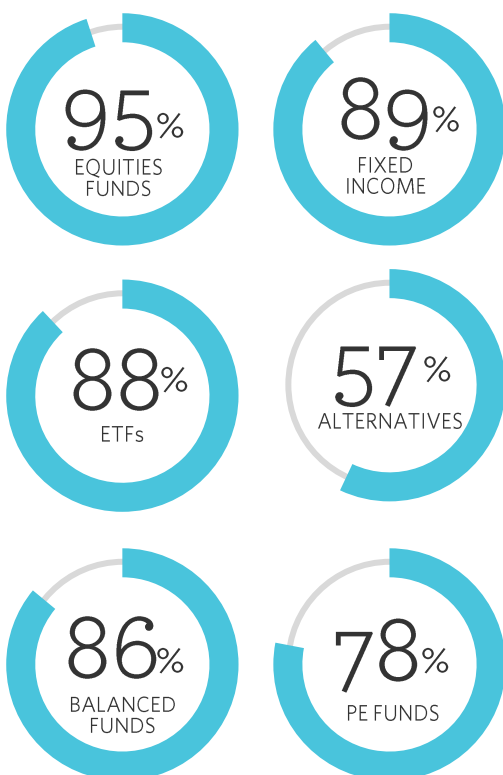
SURVEY



SUMMARY

TRUE Global Intelligence, the in-house research practice of FleishmanHillard, conducted an online survey of 260 Chinese investment, finance and banking professionals between 16 and 22 July 2021.

All respondents to the survey have traded or invested in at least one of the following:



The survey aims to paint a picture of local Chinese professional investors' perceptions of and experience with foreign asset managers that have a wholly foreign-owned enterprise (WFOE) or JV in China or utilize the country's QDLP scheme.

Survey highlights:

- ▶ Credibility, performance, environmental, social and governance (ESG), and size of the asset management house are the most important criteria for Chinese investors when choosing an asset manager.
- ▶ Asset managers with a strong reputation and distinct investment strategies, rather than the lowest fees, offer the most attractive investment proposition for local Chinese investors.
- ▶ The overwhelming majority of Chinese investors surveyed show interest in onshore retail funds run by overseas asset managers.
- ▶ In the next 12 months, investors are particularly interested in investing in more global or China/Hong Kong focused liquid asset funds, namely equities, fixed income, ETFs and cryptocurrencies.
- ▶ WeChat is fast becoming an important source of corporate information for Chinese investors, but they still prefer independent financial advisers and intermediaries to banks, along with financial media, as their prime source of information about funds and investment products.
- ▶ Chinese investors have regained confidence in their personal financial situation and about using physical financial channels for patronage of or access to fund product information, following China's rapid and effective response to COVID-19.
- ▶ Ongoing U.S.-China trade tensions are leading to more 'risk off' sentiment for local Chinese investors.
- ▶ Chinese investors particularly value asset managers that are transparent in customer communication and fees disclosure, as well as showing a strong ESG product offering and sophisticated risk management processes.

The background features a collage of geometric shapes: a large orange triangle in the top left, a dark olive green trapezoid in the center, and a dark blue triangle in the bottom right. A hand is visible in the lower center, interacting with a light blue tablet. The text 'Section 3' is in a light blue serif font, and 'THE RESULTS' is in a dark grey sans-serif font.

Section 3

THE RESULTS

THE
RESULTS

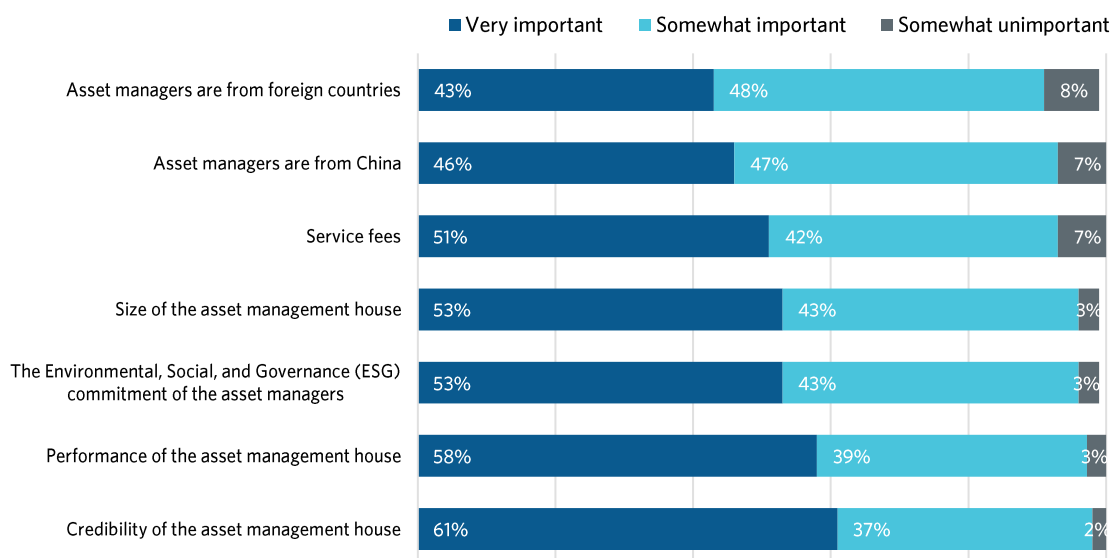
DETAILS

THOUGHTS ON GLOBAL ASSET MANAGERS

In line with last year's survey, asset management performance and credibility remain the most important factors for investors when choosing an asset manager. It also reaffirms that investors still feel less strongly about the domicile of the asset manager compared with other factors.

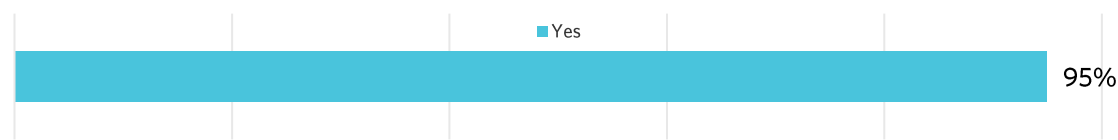
We decided this year to ask for Chinese investors' views on the ESG commitment of asset managers, given the growing interest within the asset management industry globally in the subject. Besides the increasingly strong case being made about ESG investment outperformance, Chinese regulators issued new guidelines in June 2021 for publicly-listed companies to disclose risk exposure to ESG factors, paving the way for the investment community to step up its allocation in this space. It is noteworthy that the dedication of asset managers to ESG ranks highly in this year's survey.

HOW IMPORTANT ARE EACH OF THE FOLLOWING WHEN CHOOSING AN ASSET MANAGER?

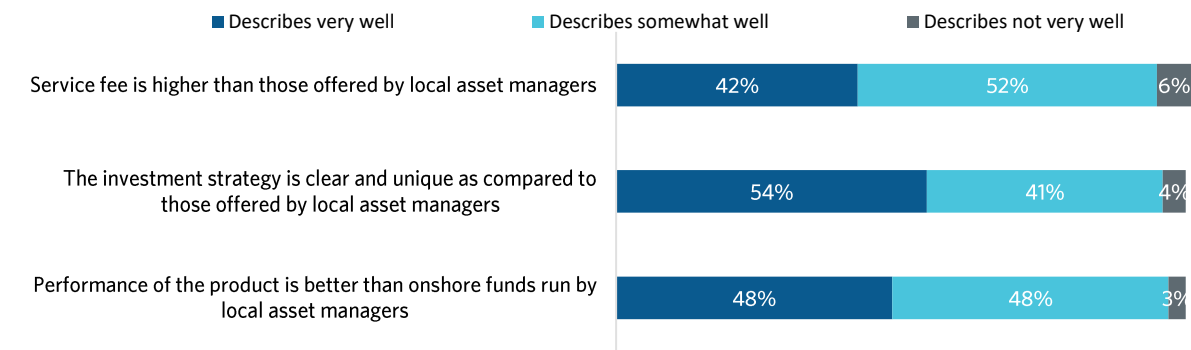


The QDLP scheme continues to be a critical source of growth for asset managers, with the survey reaffirming the popularity of funds in the scheme among Chinese investors. Unlike other outbound investment programs, the QDLP scheme provides local investors access to foreign bonds and alternative investments, such as overseas private equity, hedge funds and distressed debt, which appeal to a growing pool of institutional and HNW investors who are looking for true and differentiated diversification in their portfolios. The survey also shows that investors like the performance and investment strategy offered with QDLP more than they dislike high service fees.

HAVE YOU INVESTED IN ANY QUALIFIED DOMESTIC LIMITED PARTNERSHIP (QDLP) FUNDS BY OVERSEAS ASSET MANAGERS IN CHINA?

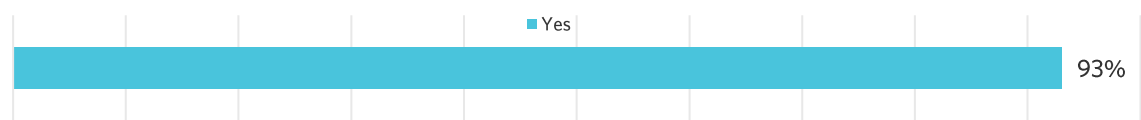


HOW WOULD YOU DESCRIBE YOUR EXPERIENCE INVESTING IN QDLP?

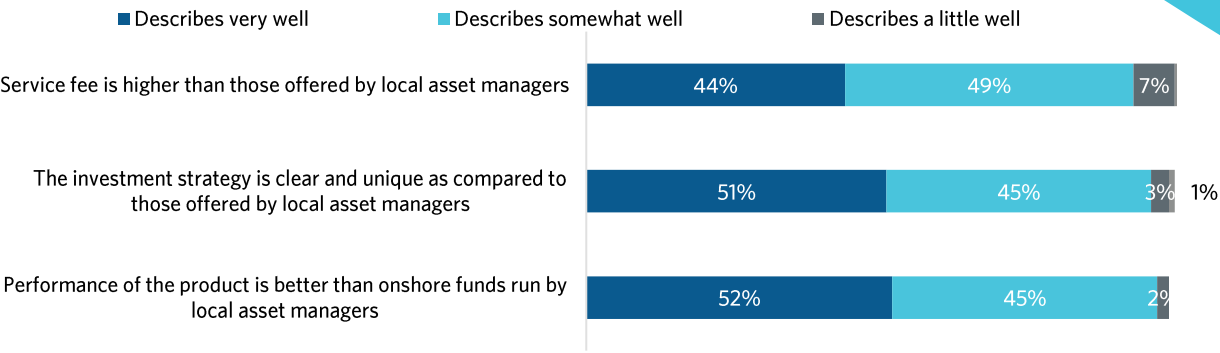


The vast majority (93%) of Chinese investors indicated that they have invested in funds managed by foreign asset managers with a WFOE license, a slight rebound from last year’s survey and reflecting continued confidence among local investors in overseas fund houses’ products. WFOEs still appear to be doing well in the increasingly competitive Chinese asset management sector, with local investors appearing to agree that WFOE asset managers’ funds offer superior returns, along with clear and unique investment strategies, compared with onshore funds run by local asset managers – so much so that higher service fees are less of a concern.

HAVE YOU PURCHASED ANY FUND PRODUCTS BY OVERSEAS ASSET MANAGERS THAT HAVE A WHOLLY FOREIGN-OWNED ENTERPRISE (WFOE) IN CHINA?

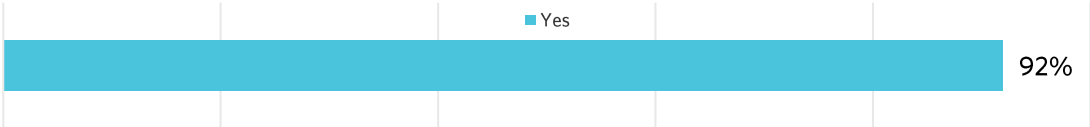


HOW WOULD YOU DESCRIBE YOUR EXPERIENCE INVESTING IN PRODUCTS OFFERED BY WFOES?

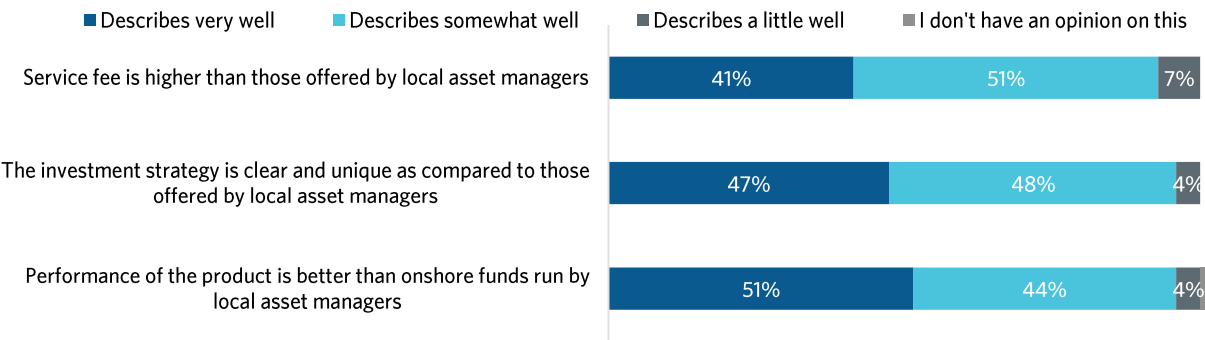


The number of investors with experience of buying products from foreign fund houses with a local JV rose again after last year's slight drop, up from 88% last year to 92% this year. There was a discernible jump in the number of Chinese investors who felt comfortable describing the investment strategies of foreign JVs in China as being clearer and more unique compared to local players, increasing from 41% to 47%. Similar to last year, this response is finely balanced with those who would say this characterization describes the situation 'somewhat well' – 48% compared to 46% last year.

HAVE YOU PURCHASED ANY FUND PRODUCTS BY OVERSEAS ASSET MANAGERS THAT HAVE A JOINT VENTURE (JV) IN CHINA?



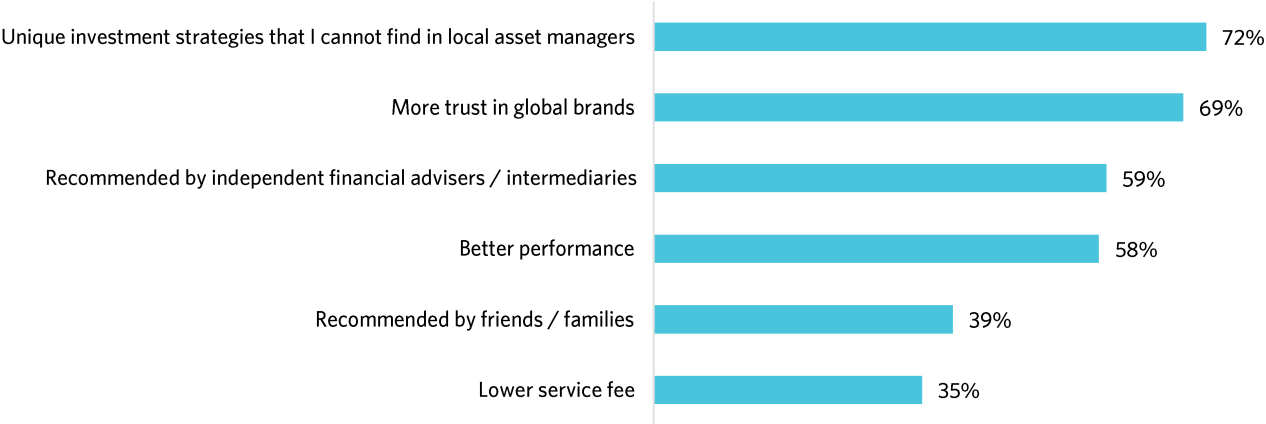
HOW WOULD YOU DESCRIBE YOUR EXPERIENCE INVESTING IN PRODUCTS OFFERED BY A JOINT VENTURE (JV)?



For the second year in a row, unique investment strategies remained the most important consideration for Chinese investors when making an investment decision, while service fees continued to be the lowest priority. Global brands also continue to enjoy a high level of trust in the market, reclaiming the second spot in the ranking of considerations.

This reaffirms the attractive proposition overseas asset managers hold for Chinese investors, particularly as diversification to other markets and asset classes remains a top priority and given the value they place on foreign brands’ experience and reputation. It once again shows that in China being the asset manager with the lowest fee is not necessarily a winning strategy compared to the distinctiveness of the investments being offered and whether those investments meet the asset allocation needs of local investors.

IF YOU HAVE PURCHASED PRODUCTS FROM WFOE/JV ASSET MANAGERS BEFORE, WHY DID YOU CHOOSE TO PURCHASE FROM THEM INSTEAD OF PURELY LOCAL MARKET PLAYERS?



Foreign competition in China’s US\$3.5 trillion mutual fund industry is now a reality following the relaxation of restrictions. Despite these exciting developments, it is evident that there has been hesitation during the past year among other foreign asset managers about competition with local players and distribution strategies for the local market. Respondents in this survey, however, were unequivocal about their appetite for onshore retail funds offered by overseas asset managers, with 95% saying they would be either ‘extremely’ or ‘very interested’ in such funds.

A FEW OVERSEAS ASSET MANAGERS ARE APPLYING TO LAUNCH ONSHORE RETAIL FUNDS. HOW INTERESTED WOULD YOU BE IN THIS KIND OF PRODUCT?



▶ OUTLOOK FOR ASSET ALLOCATION

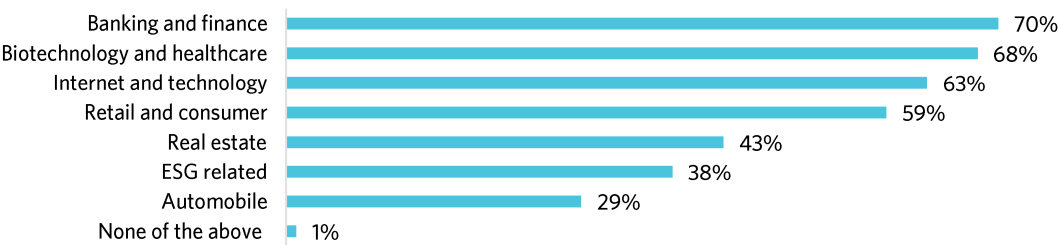
Looking ahead to the next 12 months, there is a healthy appetite among Chinese investors for funds covering all asset classes, but it is clear from our respondents that they are most interested in funds investing in more liquid assets – particularly equities. It is also interesting to see that local investors are as interested in cryptocurrency funds as they are in fixed income funds and ETFs, despite the extreme fluctuations seen recently in the price of Bitcoin. This may in part stem from a curiosity that prompted a retail- and millennial-driven frenzy in crypto assets globally; but is also perhaps recognition of cryptocurrencies’ growing status as a prominent asset class and a potential source of diversification from traditional investments.

WHAT KIND OF INVESTMENT PRODUCTS ARE YOU INTERESTED IN THE NEXT 12 MONTHS?



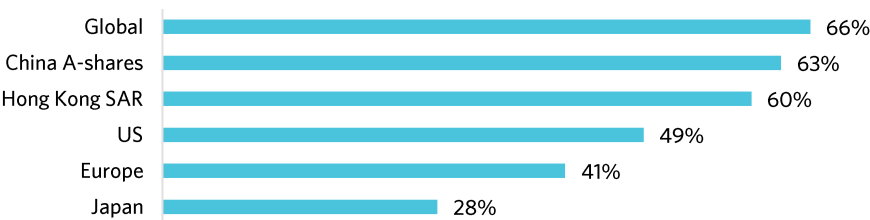
By sector, the survey reaffirms that hot growth-focused investment themes playing out in Asia, such as biotech, healthcare, internet, technological development and consumer consumption, continue to be of particular interest to investors in China. However, there also appears to be strong appetite for the banking and finance sector, traditionally a ‘value’ investment which ranks top in this year’s survey. This perhaps reflects the continuing and exciting developments in and digitalization of China’s banking sector, but also the ongoing global rotation from growth stocks to value stocks that has taken place in the aftermath of the COVID-19 pandemic.

WHAT SECTOR ARE YOU PARTICULARLY INTERESTED IN INVESTING IN THE NEXT 12 MONTHS?



In terms of geography, it is clear that Chinese investors are looking for broader global exposure in their portfolios over the next 12 months, followed closely by allocations closer to home in China and the Hong Kong SAR. Exposure to specific markets, such as the U.S. and Europe, is still very much sought after, but not as much as more globally focused funds.

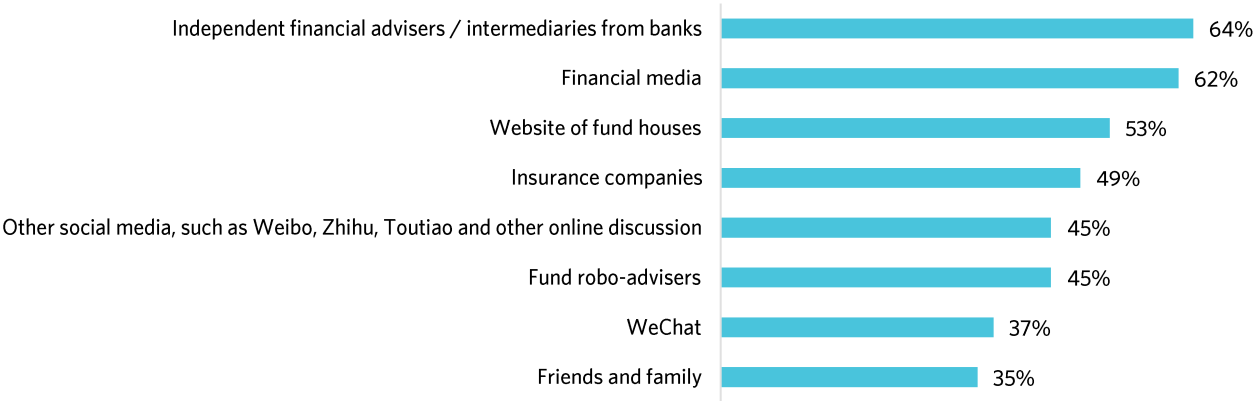
WHICH MARKET ARE YOU PARTICULARLY INTERESTED IN INVESTING IN THE NEXT 12 MONTHS?



▶ INFORMATION SOURCES

Despite the popularity of platforms such as WeChat and Weibo among the public, independent financial advisers or intermediaries from banks, as well as finance media, also maintained their rankings as the most important sources of information, showing continued demand for quality financial information and advice among Chinese investors.

THROUGH WHICH OF THE FOLLOWING CHANNELS DO YOU RECEIVE INFORMATION ON FUNDS AND INVESTMENT PRODUCTS?

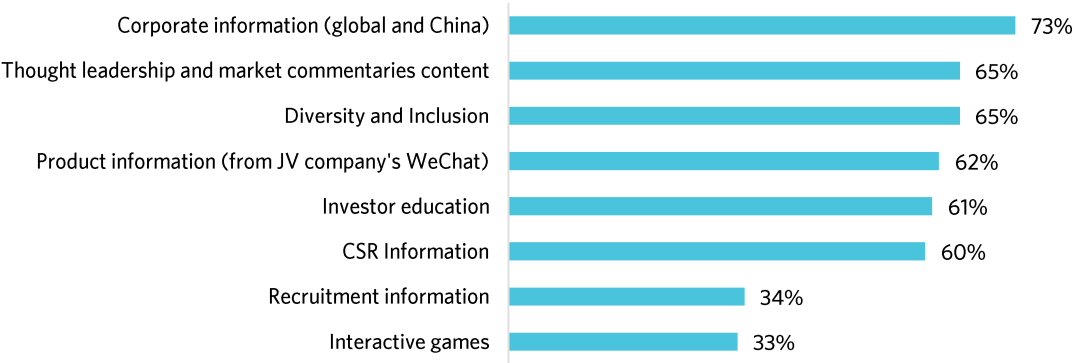


Similar to last year, more than a third of Chinese investors responding to the survey said they use WeChat to find information on funds and investment products. Of these, it is interesting to see that 73% used the platform to access corporate information – up significantly from 54% of investors last year.

The increase may in part reflect the effort and investment asset managers have put into ramping up their use of H5 pages on the app in recent years. This format provides visually appealing pages of information that introduce brands and products, as well as makes use of gamification features to encourage more user participation. With more than a billion WeChat users, the survey reaffirms the importance of WeChat for asset managers as an essential channel for marketing and communications in China.

37% of investors use WeChat for information on funds and investment products

WHAT TYPE OF INFORMATION DO YOU TYPICALLY LOOK FOR FROM THE WECHAT CHANNELS OF ASSET MANAGERS?



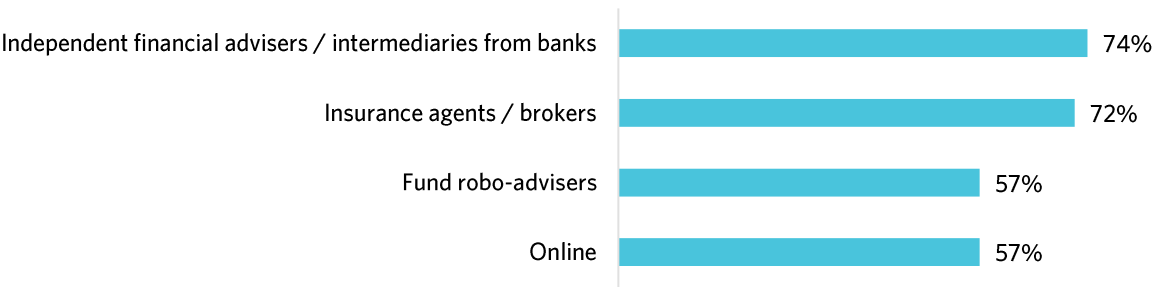
In stark contrast to our previous surveys, reporting on performance has dropped significantly from being the most sought-after type of information Chinese investors look for concerning funds and investment products. Both investor education and roadshows/conferences have increased over the past year, a reflection that Chinese investors are continuing to learn, seeking holistic information for more well-rounded views about investment trends and funds.

WHAT TYPE OF INFORMATION DO YOU SEEK FROM FUNDS AND INVESTMENT PRODUCTS?



In line with last year, independent financial advisers or intermediaries from banks are the most important sources of fund patronage, followed by insurance agents and brokers. With the rapid rollout of artificial intelligence (AI) technology in the financial industry, we also added fund robo-advisers as an option in this year's survey. It is interesting that fund robo-advisers rank similarly to online channels, given the technology's use in fund selection is relatively nascent. But it is clear that face-to-face interactions are still much more valued, even during COVID-19.

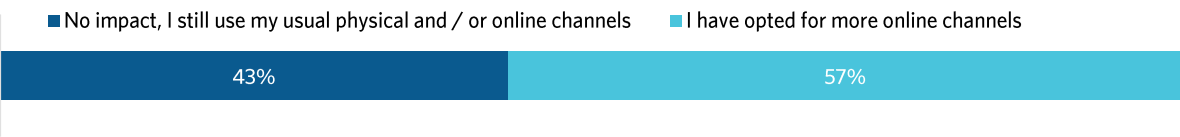
WHAT ARE YOUR SOURCES OF FUND PATRONAGE?



COVID-19

China has largely suppressed the COVID-19 pandemic and abandoned strict lockdowns and social distancing measures, leaving investors this year feeling more comfortable about using physical channels for patronage or access to product information. However, given the acceleration of digitalization during the pandemic and the convenience it has created, it is also perhaps unsurprising that investors have decided to use more online channels for this purpose.

HOW HAS THE COVID-19 PANDEMIC AFFECTED YOU IN THE PATRONAGE OR ACCESS OF INFORMATION FOR FUND PRODUCTS IN CHINA?



A similar number of investors as last year expressed little concern about the impact of COVID-19 on their confidence in their personal financial situation overall, compared to those who believe it had a high impact. However, it is noticeable that since the depths of the pandemic, there has been a jump in the number of those who are now confident and believe the pandemic is having no impact – 34%, up from 23% last year. The sentiment reflects China’s rapid and effective response to COVID-19 and the quick return to normality in the country.

HOW HAS THE COVID-19 PANDEMIC IMPACTED YOUR LEVEL OF CONFIDENCE IN YOUR PERSONAL FINANCIAL SITUATION FOR THE NEXT 12 MONTHS?

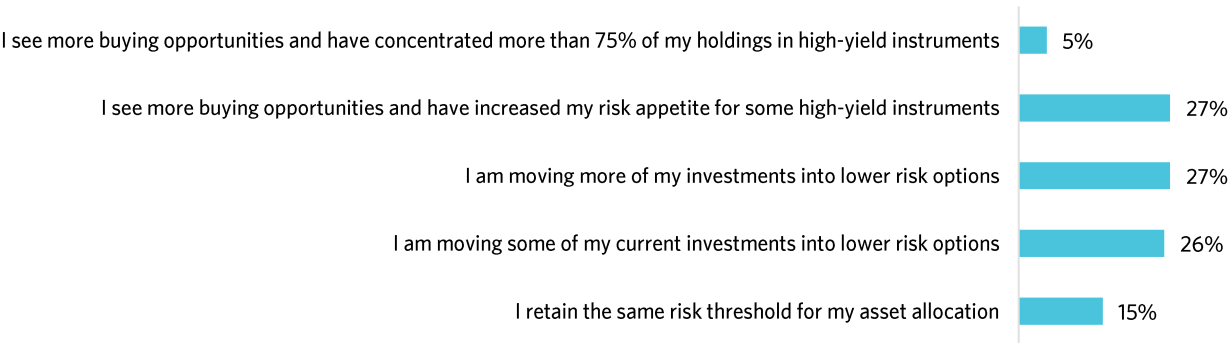
- No impact: I remain confident in my financial situation
- Low impact: I am somewhat uncertain about my financial situation in the near to medium term.
- High impact: I am extremely uncertain about my financial situation in the near term.



▶ GEOPOLITICS

Trade tensions between China and the U.S. remain high. Compared with last year’s fairly even split between investors who were more ‘risk on’ and those who were more ‘risk off’, the needle appears to have swung more in the direction of lower risk sentiment as tensions look set to continue for the long term. A combined 53% of respondents said they are moving more or some of their investments into lower risk options, compared to 32% with a higher risk appetite.

HOW HAVE THE ONGOING US-CHINA TRADE TENSIONS AFFECTED YOUR INVESTMENT OUTLOOK AND RISK APPETITE IN TERMS OF YOUR ASSET ALLOCATION?



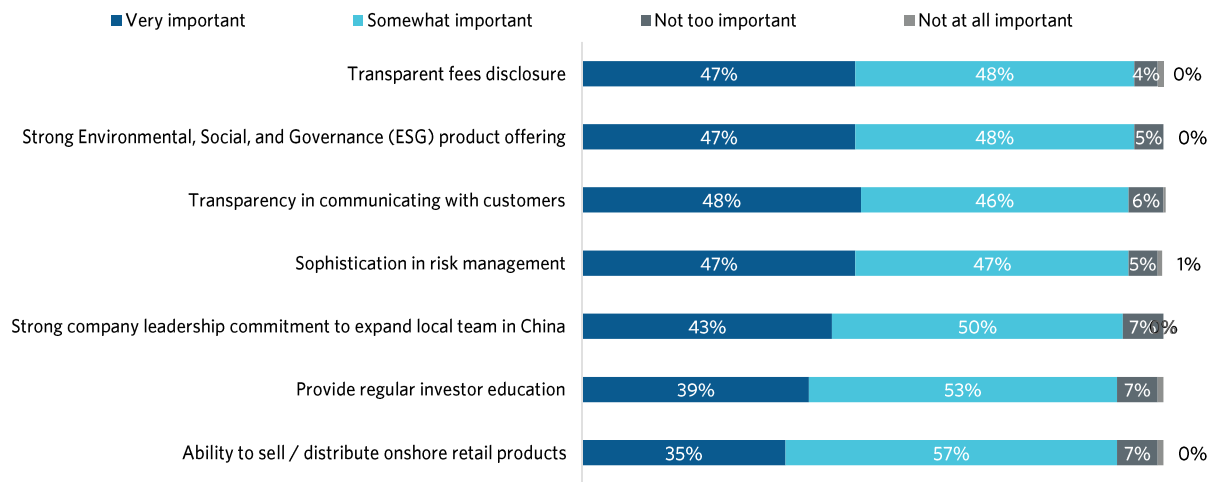
▶ **APPEALING TRAITS**

Chinese investors’ views on the most important traits for overseas asset managers have not changed dramatically since last year’s survey, but in general have evened out across all the characteristics. It suggests that foreign asset managers need to demonstrate holistic capabilities. With China’s onshore mutual fund industry now opening to foreign players, competition in the sector is bound to increase and thus it will be important for asset managers to be able to communicate in a transparent manner and demonstrate their strong ESG product offerings.

This is reflected in the survey, with Chinese investors telling us they particularly value transparency in customer communication and fee disclosure, as well as clear evidence of a strong ESG product offering. As in previous years, investors also placed emphasis on sophisticated risk management processes as being another important quality.

Of lesser importance, but still significant, are fund managers’ on-the-ground capabilities in China, namely a leadership team’s commitment to expanding local teams or the strength of their local distribution, as well as investor education offerings.

FOR EACH OF THE FOLLOWING DESCRIPTIONS, PLEASE INDICATE HOW IMPORTANT IT IS FOR OVERSEAS ASSET MANAGEMENT HOUSES OPERATING IN CHINA TO HAVE THE FOLLOWING.



WeChat Analysis

We are pleased to include a WeChat analysis on asset management firms in China by ChatLabs, a partner of ours, Salesforce and Tencent.

OVERVIEW

We analyzed the WeChat Official Accounts of 31 asset management firms, of which 10 were Chinese and 21 were global brands. We used the flywheel model to examine the entire lifecycle of the consumer through Marketing, Conversion and Service. Our analysis covered 41 metrics within seven subdimensions: Marketing (Search, Welcome Journey and Engagement), Conversion (Binding) and Service (Chatbot & Automated Support, as well as Live Chat). Each brand was graded on a weighted 30-point scale. (To get a full copy of our Asset Management firm rankings, please visit: <https://landing.chatlabs.com/asset-management-firms-wechat-ranking>)

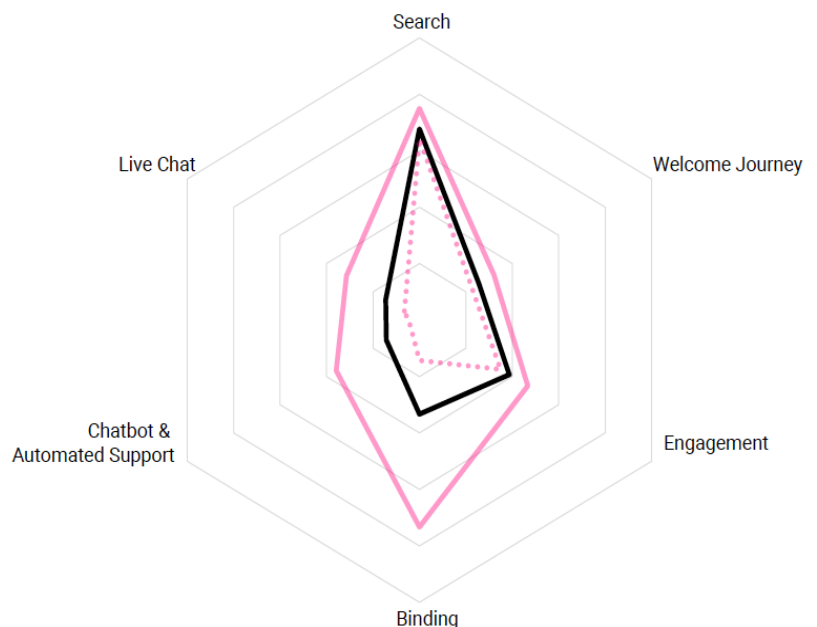
The overall average score was 8.9, with Search being the strongest subdimension and Chatbot & Automated Support the weakest.

Rankings

Overall Performance

Average overall score: **8.9**/30

- Industry average
- Chinese brands (n=10)
- Global brands (n=21)



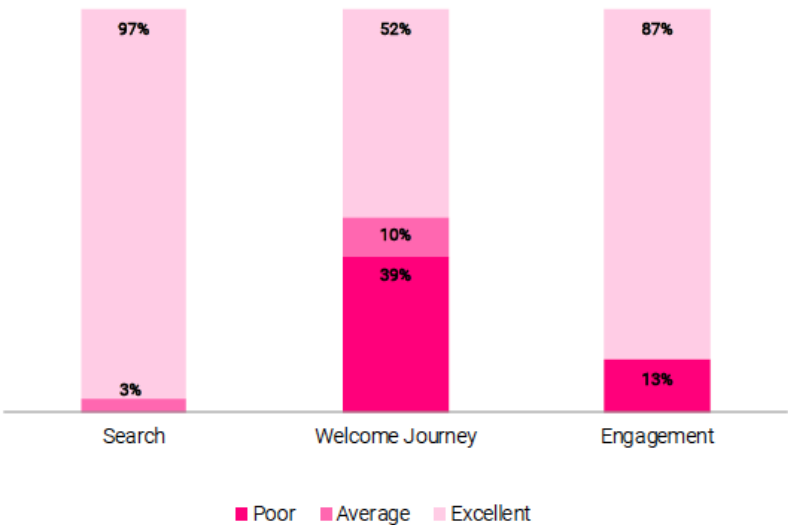
CHINESE VS. GLOBAL BRANDS

On average, Chinese brands scored higher than global brands in every subdimension. Chinese brands most excelled over global brands in Binding and Chatbot & Automated Support, scoring nearly 81% and 89% higher respectively. Global and Chinese brands scored most similarly in Search, with only a 14% difference. Of the top-five performing brands, only one was international.

MARKETING OVERVIEW

WeChat is the premium platform for brands to develop trust with consumers. We found that 81% of Official Accounts had at least one fake account imitating them. Nearly all accounts had verification as well as an optimized WeChat ID that made it easy for consumers to find them. About 60% of accounts used the Welcome Journey (chat messages an account may send to a new follower) to engage consumers with clear call-to-action messages. However, 87% of accounts engaged their followers by offering market analysis insights, webinars and other unique features like games and financial tools.

Official Account performance in Marketing



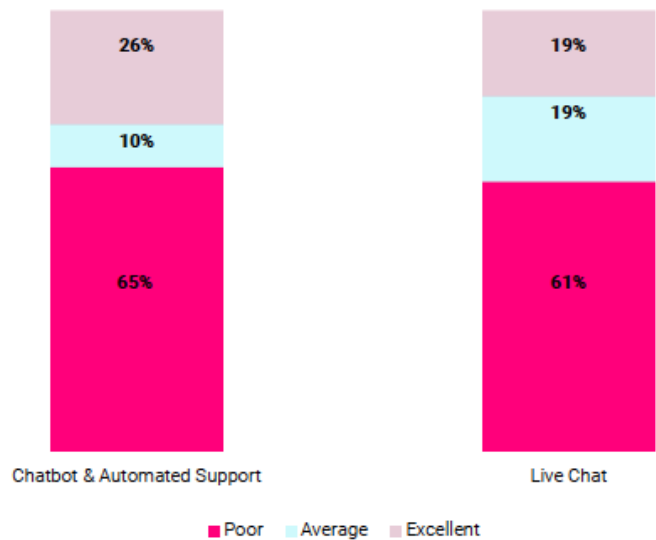
CONVERSION OVERVIEW

Asset management accounts' conversion efforts on WeChat center around binding users' WeChat IDs with other identifying information like location, gender and age. Just fewer than half of the surveyed brands offered or promoted binding within their Official Accounts (across other industries, this is often done at near 100% rates).

SERVICE OVERVIEW

Live chats within WeChat were the most popular form of customer service, with 39% of brands providing this option. Chinese consumers generally expect immediate assistance within the app (reducing the effectiveness of email and calls for brands). Automated support options included autoresponders, FAQ centers and AI chatbots, with 35% of brands providing at least one of these. Ten percent of brands offered support via WeChat Mini Programs (like mini-apps within WeChat that do not require a download), which are becoming standard across some financial, shopping and service industries due to their ability to provide more comprehensive customer support.

Official Account performance in Service



Concluding Thoughts

Chinese investors are anything if not consistent. The thinking and principles that underpin their decisions on which asset manager to choose are much the same this year as in our two previous *The Future of Asset Management in China* reports.

Yet, there are some clear differences in this year's report. The market remains in flux, perhaps more so than before the peak of the COVID-19 pandemic, with pressure points, changing investment focus and an ongoing migration to digital, all set against a far more uncertain and troubled geopolitical backdrop.

This presents challenges for investors and, of course, opportunities. For foreign asset managers looking to expand into China, it is no doubt at times exasperating. Just as regulatory obstacles come down, new unforeseen barriers go up. But again, that presents opportunities, too.

For Chinese investors, foreign asset managers offering sophisticated risk management, distinctive and innovative trading strategies, along with a wide range of asset classes and strong ESG product offerings, have enduring

appeal. Transparency in communications and a willingness to help educate or mentor investors are sought after qualities, too. The importance of fees has slipped down the list of priorities.

APPETITE FOR ESG

In terms of investment offerings, there is discernibly more interest in ESG compliant companies and products. It is not just that ESG compliant companies have tended to outperform the market. There is also a broader awareness and understanding of the issues that lie behind ESG. Asset managers that can navigate the myriad of ever-changing ESG reporting frameworks, standards and requirements across the globe – which are slowly converging – are in demand.

At the 75th session of the UN General Assembly in February this year, the Chinese government declared that China will “aim to have carbon dioxide emissions peak before 2030 and achieve carbon neutrality before 2060.” This helped to raise awareness and, in a sense, upped the ante for businesses in China.

The world over, including China, investors are looking for action in this space, particularly younger investors. For Chinese investors who took the plunge into ESG funds last year, they have enjoyed good returns thus far. According to Bloomberg Intelligence in late July, ETFs that invest in renewable energy, electric vehicles and other green assets posted gains as high as 35% in 2021, while China's benchmark index declined.⁹

That upward trend is likely to continue for the longer term. China is currently responsible for 28% of the world's carbon dioxide emissions, more than the United States and the European Union combined. To achieve its carbon neutrality target by 2060, it will need to reduce its carbon emissions by as much as 90%¹⁰ – a huge undertaking, and one that points to a vast amount of investment and growth in the sector.

GEOPOLITICS

ESG and sustainability are common ground for most countries, around which international agreements and relationships can be developed. There is certainly a need given the rising geopolitical tensions, notably between China and the U.S., although there is no shortage of trouble spots elsewhere.

As a consequence, investors in China are reining in their more cavalier instincts and taking a more cautious approach to risk. They appear to be hunkering down for a lengthy spell of political and trade tension, particularly with the U.S., but also with European countries.

DIGITAL COMMUNICATIONS

On a more positive note, Chinese investors' use of social media channels continued to grow, most notably on WeChat and Weibo. Almost three quarters of those surveyed use WeChat to get corporate information, which demonstrates what an essential communications tool it is for asset managers. Despite the explosion of websites, apps and other digital tools for gathering information and trading, there are inherent risks here, given the Internet and social media platforms' propensity to play host to scams. Investors need to take care.

One way to avoid online scams is to supplement with a face-to-face meeting with a financial advisor. In-person meetings remain deeply popular among Chinese investors.

9. Bloomberg: China ESG Funds Sidestep Stock Market Sell-Off on Fresh Inflows (29 July 2021)

10. Franklin Templeton: Bridging the ESG Gap in China (April 2021)



Never Settle.

The liberalization of the asset management industry in China presents unprecedented opportunities and challenges for overseas players aiming to get a slice of the market. We are ready to help you in areas of corporate communications, media relations, public affairs and reputation management.

“*FleishmanHillard is your go-to-consultancy to manage your communications and reputation in China.*”

Stay ahead of the curve and manage your narrative and reputation. Having a communications partner in China will help you navigate the complexities and stay ahead of the game.



Contacts

PATRICK YU

*General Manager, SVP and Senior Partner
Asia Pacific Lead, Financial and
Professional Services Sector
FleishmanHillard Hong Kong
Tel: +852 2586 7877
Email: patrick.yu@fleishman.com*

YISI LIU

*Managing Director and Senior Partner
FleishmanHillard China
Tel: +8621 6407 0066
Email: yisi.liu@fleishman.com*

TOM KRUGER

*Vice President of Strategy
ChatLabs
Email: tom@chatlabs.com*



Disclaimer

This report by FleishmanHillard is a collection of publicly available information, announcements, analysis and media reports. The report aims to provide an overview of key trends affecting the Chinese asset management industry.

FleishmanHillard makes no representations as to the accuracy, completeness, correctness, suitability, or validity of any information stated, and will not be liable for any errors. All information is provided on an as-is basis, based on the latest updates from credible publications and publicly available sources. The statements and analysis expressed herein are an assessment of such materials, and do not reflect the views or position of FleishmanHillard or FleishmanHillard and their employees.

Appendix

Sources:

Boston Consulting Group: The \$100 Trillion Machine (July 2021)

PwC: Asset & Wealth Management 2025: The Asian Awakening (January 2019)

Morningstar: China Equity Tops Asian Fund Flows (4 May 2021)

Cerulli Associates: Sustainable Products Take Root in Asia (26 July 2021)

KPMG: Hong Kong Asset Management Outlook: Key trends for 2021 (February 2021)

Cerulli Associates: China Is an Increasingly Important Market for Global Asset Managers (11 August 2021)

The Asset Management Association of China: Mutual Fund Industry Data (accessed 16 August 2021)

Hurun: Hurun Wealth Report 2019 (accessed 12 August 2021)

Bloomberg: China ESG Funds Sidestep Stock Market Sell-Off on Fresh Inflows (29 July 2021)

Franklin Templeton: Bridging the ESG Gap in China (13 April 2021)